RR-AG-1 Provide all loan documents for the dump truck purchased by Blackstone Gas Company in 2001.

Response: See response to RR-AG-2 and the loan documents for the additional transportation equipment attached as Attachment RR-AG-1.

RR-AG-7 In the proposed inflation adjustment were the following expenses removed:

a. LDAC
b. Unbundling
c. test-year bad-debt.

Response: The A&G inflation adjustment did not exclude the LDAC expenses from the total A&G expense which was inflated. Unbundling expense is a subset of LDAC expenses and thus also were not excluded. Removing the LDAC expense from the value which was inflated would reduce the inflation adjustment by $636. This adjustment also excludes the amount of employee benefit expenses attributed to Sales & Services employees. Please see RR-AG-10.

The O&M inflation adjustment did not exclude test year bad debt. Removing the bad debt from the amount inflated reduces the inflation adjustment $457.

RR-AG-10 For the two employees of sales and service were benefits due and were they allocated to sales and service?

Response: We have determined that benefits for the Sales & Service employees were not allocated to the affiliate. 2000 was the first year that the employees for Sales & Service received payroll benefits and they were inadvertently overlooked when allocating expenses to the affiliate. The amount of benefits received by the employees was $3,443 and this has been removed from test year O&M expenses in the updated cost of service to be supplied.

RR-AG-12 Please provide a description of what insurance coverage is provided by Hanover Insurance Company.

Response: See Attachment RR-AG-12.

RR-AG-15 Please provide weather normalized billing determinants and how they tie to the proposed rate design.

Response: The weather normalized billing determinants were estimated based on the monthly weather normalized sales and the number of customers. For the residential classes, the headblock usage was estimated by taking the number of customers billed in each month and multiplying by the headblock threshold usage for each class. This seemed to be a reasonable assumption since for the six winter months, the average normalized residential heating bill was 152, 149, 117, 60, 89, and 123, while the first block was only 30 ccf. This assumption was supported by an analysis by hand of residential heating bills in a meter book from February 2000. This demonstrated that essentially all residential heating customers in these winter months used more than the first block. Of the sample of bills from this meter book, only one customer used less than 30 in the November through February period, and that reading was 29 (and November was 3% warmer than normal weather.) If the normalized usage was less than the product of the number of customers and the headblock threshold usage then the class headblock usage was simply the normalized total usage. For instance, in four summer months all usage is in the first block. The tailblock usage was the total normalized usage minus the calculated headblock usage. This approach may overstate revenues somewhat, if there are months where actual usage in the headblock is less than the calculated amount.

For the commercial class the headblock usage was estimated in the same manner as the residential classes, i.e. it was assumed that each customer used the first block amount of 30 ccf. For the midblock, the number of customers was multiplied by the midblock threshold usage. This number was adjusted to take into account the possibility that not all commercial customers were larger than the first and the midblock, and therefore these customers would not have any usage in the tailblock. For Jan and Feb, the number of customers with usage that ended in the midblock was estimated to be 10%. March and December was 20% and April and November were 30%. For May through October there was no tailblock usage. Tailblock usage was calculated by subtracting the headblock and midblock usage from the total normalized sales.

RR-DTE-1 Explain derivation of normal and design data used in the Blackstone Gas Company forecast.

Response: The difference between the 1999 actual sales and the 2000 design sales in the company's forecast is due to weather and projected load growth. The 1999 actual sales were adjusted to reflect the expected consumption under design weather. Design sendout was projected to be greater than normal sendout out, because design weather was projected as weather 10% colder than normal conditions in every month. As noted, the design projection had no impact on the forecast because the supply contract provides for Duke Energy to supply all needs that do not exceed the maximum daily contract sendout.

RR-DTE-4 Submit a revised cost of capital including all debt utilized to support the rate base of the Company including long-term debt, short-term debt, notes payable, accounts payable with the appropriate cost and the proprietary capital.

Response: We have prepared several worksheets associated with this answer. Worksheet 1 develops a weighted cost of capital including proprietary capital for equity, long-term debt, short-term debt, and accounts payable. Accounts payable is divided into the amount due to Duke Energy, upon which interest can be charged at the prime rate and which is included in this calculation at the prime rate, and "other" accounts payable, on which we have placed a zero rate of interest..

In preparing this answer we discovered that customer contributions and the reserve for deferred income taxes had been added into rate base, rather than used to reduce rate base, as is appropriate, as these reduce the need for capital. Making this correction reduces rate base to $1,361,658. At the requested cost of capital, this reduces the return to $132,363. Worksheet 2 makes this correction and calculates the return.

The sum of proprietary capital, long-term debt, short-term debt, and accounts payable are greater than the corrected rate base. This can happen because accounts payable are not normal debt. Since we are trying to establish an exact capital structure, rather than imputing a typical capital structure, the sum of debt plus equity should equal the rate base. In Worksheet 3 we have created a capital structure which reflects all actual debt and equity and includes a proforma long-term debt amount of $234,187 that causes the total capital to equal the total rate base. We have priced this debt at the prime rate (6.5%, from WSJ 8/30/01) plus 1.5%, which is the formula that was applied to Blackstone the last time it did long-term financing. This produces a weighted cost of capital of 9.72%.

It is not sound utility practice to "finance" investment by not paying or delaying payment to suppliers and providers of services. Even if much of this "debt" has not been accompanied by interest charges during the test year, there will be consequences, ranging from an imposition of interest charges to a cessation of service. Both Blackstone's law firm and its consulting firm have imposed interest charges within the last year. Of more concern, Duke Energy has threatened to cease providing gas if it is not paid. If Blackstone were able to find a replacement supply at short notice, given Blackstone's payment problems, it would probably pay considerably more for gas. We have testified that Blackstone intends to replace most of its short-term irregular indebtedness with long-term debt. We are recommending that it borrow the amount of new long-term debt shown in Worksheet 3.

Finally, worksheet 4 demonstrates why short-term debt and accounts payable have had to increase to pay for investment. Blackstone last refinanced in 1999, but the $300,000 of debt approved replaced short-term debt of $312,000. From the end of 1998 the Company has invested $200,887 more than its total income plus total depreciation expense over this period. With no new long-term financing, it is clear that this has been "financed" through late payments, nonpayments, that have given rise to substantial accounts payable.

RR-DTE-6 Did the company have any late charges from Duke Energy during the test year? If so how much?

Response: There were no interest or other late payment charges from Duke Energy in the test year. If there had been, they would not have been included in the CGA reconciliation as late payment charges are recorded in a separate, non-gas cost account. The CGA clause is developed on the basis of projected sendouts and costs, and again does not include late charges. Duke would have had the right to charge late charges for January, February, June, July, August, September, October for total bills of $273,526, and total potential interest charges of roughly $1,800. Of greater concern is Duke Energy's contractual right to suspend gas deliveries thirty days after written notice if default continues. Blackstone wants to cure this situation by taking an additional long-term loan.

RR-DTE-7 Please provide provisions of Duke Energy contract relating to late payments.

Response: See Attachment RR-DTE-7.